

Maurizio Ferrera, Lázsló Andor, Bea Cantillon, Frank Vandenbroucke, and Martin Seeleib-Kaiser discuss together the role of the EU in the current COVID-19 crisis, and what existential dangers could lie ahead if EU solidarity would fail to ease the suffering of the Member States most severely stricken by the pandemics.

Maurizio Ferrera. The COVID-19 crisis has suddenly reopened the long-standing controversy over solidarity between countries within the EU. Like ten years ago, when the sovereign debt crisis broke out, today the challenge to be addressed is a pan-European emergency. Back then, it was feared that financial contagion would expand from South to North. Today, all countries are infected with coronavirus: the risk is common, no country is more “guilty” than the others. Yet, the rift between “frugal” and “spendthrift” member states has reappeared, accompanied by the rhetoric of saints and sinners. So the EU is entering an existential crisis again. Italy’s idea of issuing “coronabonds”, jointly guaranteed by the member states, has been defeated so far. Several alternative proposals are being discussed. But let us start out the dialogue with a general diagnosis of the COVID-19 threat for the EU as a whole.

Martin Seeleib-Kaiser. I am worried that this crisis might lead to a break-up of the EU if no immediate action is taken. Even if politicians are not able to agree on Eurobonds or on a fully-fledged European unemployment re-insurance scheme, there is an urgent need to build bridges across the different positions and arrive at a political compromise, to provide semi-automatic relief to member states needing assistance.

Lázsló Andor. The EU has already broken up with Brexit. Today it is not the EU that is at risk of breaking up but the single currency. It was the countries of the periphery that sacrificed a lot (of their GDP and their jobs) in the last decade to save the single currency. But if the current crisis is not enough to move to proper risk-sharing there will be no more progressive case for maintaining the EMU. The COVID-19 crisis is not a new story but a new episode. In 2012 and again in 2015 we were very close to a break-up. When Greece was facing the 3rd program, the Greek government eventually decided against quitting the euro not because they suddenly learned to like the conditions set by the Troika, but because exiting would have required a shift to a war economy (nationalisations, financial repression, price regulation, rationing etc.) with very high political costs. Today the COVID-19 crisis is pushing

most countries close to a war economy, so the political cost of quitting the euro and restoring national currencies would be much smaller.

Bea Cantillon. What is happening now is despicable not only for its social and economic implications but foremost for ethical reasons. The lack of solidarity is a shameful mockery of all the great principles enshrined in the Treaties. My own country, Belgium, even refused to vote in favour of the very modest EU scheme – 37 billion euros – to provide emergency aid to poorer countries. Considering the opposition of the Netherlands and Germany to support Southern member states, risk-sharing remains difficult even in these disruptive circumstances. This is very sad. But I am hopeful. After all, risk-sharing has become a necessity. For all. Not only for the most affected countries. And if we fail to protect the victims of this crisis the whole system will collapse.

Frank Vandenbroucke. This is an existential moment for the EU: either it will be able to organize tangible solidarity, or its true *raison d'être* is lost. In the current context, solidarity requires large-scale “disaster relief”. The European treaties not only make this possible, they even demand it: Art. 222 TFEU stipulates that the Union and its Member States shall act jointly in a spirit of solidarity if a Member State is the victim of a natural or man-made disaster; Art. 122 TFEU allows for financial assistance to members states threatened with severe difficulties caused by natural disaster. Indeed, there is no automaticity nor a predetermined method in the Treaty. But, if the political will is present, there is no shortage of instruments on which the EU can build, also with regard to the common funding of a fiscal effort.

MF. Martin, you have proposed the establishment of a European Emergency Solidarity Facility. How would that work?

MSK. The EU has to become quicker and more effective in responding to emergencies. According to my proposal, (three or more) Member states could request the Commission to declare a European Emergency. Once a European Emergency is stated, the ECB should be in a position to make available funds from a European Emergency Solidarity Facility to be distributed to affected member states (for up to 10% of their GDP) via the European Commission. Such sums shall be spent for public health and disaster relief measures, on the one hand, and social assistance measures (in cash or in-kind) at the local level, on the other. Member states should only be able to block the facility with a qualified majority vote within a maximum of ten days of the emergency having been declared by the European Commission.

MF. The symbolic impact of such a scheme would certainly be enormous. A real break with the predominance of that principle of “moral hazard” which in the last decade has amplified mutual distrust and suspicion between countries, on the assumption that opportunism and cheating are the driving factors of national governments, especially those of the South. How do you build a political community on this basis? It is clear that if this is the starting point, the EU is reduced to being a sanctioning organization, all oriented to controlling what happens inside itself and that is it. Let us consider that there is reason to believe that the collapses of the Spanish and Italian health care systems are at least partly related to the financial savings imposed by the Growth and Stability Pact. Arguably, the EU is not without responsibility for the enormous toll of lives in these countries. The highly visible tool you are proposing could actually turn COVID-19 crisis into a “moral opportunity” to re-solidarize and re-legitimize the European project after the last horrible decade. However, your proposal is also very ambitious, perhaps we are not yet ready for such impressive figures, both institutionally and financially – and thus politically. Perhaps we are not ready yet. Would it not be reasonable to have a plan B and rely on a wider array of instruments?

FVDB. Indeed, I do not think that the response can be based on one single, giant scheme. Different schemes should instead operate simultaneously. Financial risks have to be addressed (for which the ECB is equipped to act) and large-scale fiscal support is necessary (which cannot be organized by the ECB). As part of such a large-scale effort, the new Commission initiative “SURE”, which would support member states organizing short-time working and similar schemes to protect existing employment, is well-taken. It also creates an interesting perspective. For many years, experts have been arguing that the Eurozone needs a re-insurance of national unemployment insurance systems. SURE supports “job insurance” rather than “unemployment insurance”: whilst that is indeed a top priority at this very moment, the EU must also be equipped with a re-insurance of national unemployment benefit schemes, which should be operating in a truly automatic way in response to severe unemployment shocks in member states. The automatic nature of such a scheme is necessary to create the expectation, notably in financial markets, that support for countries hit by severe shocks is granted. Hence, work on the development of such re-insurance must now be accelerated. Finally, the EU should be equipped with a central capacity to procure, purchase, stockpile and allocate medical countermeasures in the case of a severe epidemic or a pandemic.

BC. I share Martin’s and Frank’s view that new structural solidarity mechanisms are required (an unemployment reinsurance system and a minimum income guarantee). Recovery will be slow, suffering could last a very long time. More than ever before, catering for the most

vulnerable should be the EU's priority. In these difficult times, Europe has to take care of the most vulnerable. Member states need support in their task to ensure a life in dignity for all, and effective access to enabling goods and services. I also support Frank's idea about a central capacity for medical equipment and stronger collaboration in hospital care, notably intensive care. Stockpiling respirators and masks is something that should be organized best sooner than later. But it's too late for that now. For the suffering and rightly angry Bergamasco who lost his beloved because there was no respirator, creating a capacity for the future doesn't offer solace. He now needs a perspective and the tangible presence of a Europe in which he and his compatriots believed more than anyone else in the EU. What is now badly needed is substantial emergency aid so that the most affected and most vulnerable European citizens can take up with confidence the thread of life again. This emergency aid must be very easy to implement (i.e. only subject to two conditions: the economic capacity and the degree of affliction, measured by the number of deaths) and understandable to suffering citizens. Its adoption must appeal to the solidarity of all the ordinary Europeans, in the wake of the heavy emotional toll of the crisis. As no one knows how to deal with the future economic recovery, it is neither necessary nor meaningful to define conditions governing the national use of the funds acquired.

LA. I do appreciate Martin's proposal for its innovative approach. I am also sceptical about creating one single super-instrument. Having smaller instruments against smaller disasters is one way to prevent greater disasters. The EU would allow too many losses if only the once-in-a-century super-disasters have to be handled together. However, I would like to return to the general picture. The reason we are discussing (and many of us are supporting) coronabond/Eurobonds is not because the direct costs of the health care effort are enormous. The main reason for this discussion is that to save the old, fragile, vulnerable groups, countries are stopping their economies and increasing their budget deficits which eventually will push up their public debts. Italy may come close to default when further borrowing from markets becomes very difficult again. She will not accept conditionality (for ESM loans) from ministers who only managed to add insult to injury so far. Italy is still the 3rd largest economy of the euro area, and the risk of the domino will be much greater than 5 years ago with Greece. So in my view, the only reasonable way forward is to try to sell real risk sharing, even if it seems an uphill struggle in some countries.

MSK. Whatever risk-sharing instrument is set up, I think this should be accessible to the Member States not yet part of the EURO currency area, by providing the national central bank guarantees with the hypothetical national central bank share in the EURO system.

LA. If risk-sharing is impossible, the EU would need to find a different equilibrium, i.e. on the basis of national currencies. If there is no way to complete the EMU and put it on a sustainable footing, achieving the return to national currencies should be seen as a success.

MF. A risk that I would prefer not to evoke entirely. In an interesting 2009 book, the American scholar Rebecca Solnit explained how, in some cases, disasters can induce political communities to “build paradise while in hell” (Penguin, 2009). We certainly can’t expect that much. It would be enough to be able to get out of hell by staying united, in a spirit of solidarity, as we all committed ourselves to do in the Treaties.

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